

March 8, 2007
#10



MEMORANDUM

TO Mayor and City Council

FROM Paul Hilgers, Director
Neighborhood Housing and Community Development

DATE March 7, 2007

RE CITY COUNCIL AGENDA ITEM #10: GUIDELINES FOR
IMPLEMENTATION OF GENERAL OBLIGATION BONDS FOR
AFFORDABLE HOUSING

Item #10 on the City Council agenda this week presents staff's recommendations regarding the City Council's direction to develop a process that provides accountability in the expenditure of housing bond funds. Your agenda back-up contains an updated memo regarding the process that was followed to develop these recommendations. This summary is intended to highlight the critical issues that have transpired over the past several weeks as we worked to develop these recommendations.

On February 23, 2006, staff presented to stakeholders a plan to administer the first allocation of the GO Housing Bonds. Staff recommended an initial allocation of \$5 million. Staff also recommended three administrative components:

- 1 Strategic Plan Process for Bond Funds to align with NHCD-AHFC's five-year planning process,
- 2 Additional public review, including the creation of a Housing Bond Review Committee (HBRC) and monthly status updates on project applications to the NHCD-AHFC website, and
- 3 Administrative Process to Fund Applications

On Tuesday, March 6th, staff received a draft set of recommendations from some of the housing advocates that we are currently reviewing.

The core of the disagreements with this process seems to be in our recommendations on the Administrative Process to access GO Bond Housing funds. Specifically, staff recommends that 60% of the allocation be made available through a quarterly Notice of Funding Availability (NOFA) process. Staff recommendation for the remaining 40% is to allow for GO Bond Housing funds to be used for Council Priorities, including VMU, TODs and S M A R T Housing developments that meet the core housing affordability

values 1) Serve lower-income targets, 2) Create geographic dispersion of affordable housing, and 3) Secure long-term affordability Council Priorities include "fast-track" acquisition funding for qualified non-profit organizations, as well

If Council desires a different allocation strategy, staff would recommend a change for each tract from a 60%-40% split to a 75%-25% split as a guideline The revised recommendation includes

75% for the Notice of Funding Availability Process, 20% to Council Priorities and 5% for Qualified Non-Profit Fast-Track Acquisition

We also would reiterate that any development that is applying for GO Bond funding must meet project evaluation and underwriting criteria All project applications must receive a minimum score based on project evaluation and underwriting criteria in order to be considered for funding (See Attachment 1: GO Housing Bond Project Evaluation & Underwriting Criteria).

RECOMMENDATION

Staff recommendation is based upon the understanding that existing rules and procedures allow City Council to act in real estate matters with flexibility In balancing these issues, staff proposes that the administrative funding process include the following

- | | |
|-------------------------------------|-------------------|
| • NOFA Process | 75% of allocation |
| • Council Priorities | 20% of allocation |
| • Non-Profit Fast-Track Acquisition | 5% of allocation |

Please note that these percentages are set as guidelines If the demand of eligible projects that are ready to receive funding comes through the NOFA process is greater than the allocated NOFA funding, staff may recommend that additional funding be made available for applications received through the NOFA process If the NOFA process is undersubscribed, staff may recommend that additional funding be made available to Council Priorities and/or Non-Profit Fast-Track Acquisition

In addition, staff recommends the following

- The HBRC would be notified of such applications to review scoring results Because the HBRC is to meet quarterly, staff will provide notification to the HBRC on an on-going basis that will include a project description and evaluation summaries
- Brief summaries of the pending Council Priority and Non-Profit Fast-Track Acquisition projects would be posted monthly to the website

GO Housing Bond Project Evaluation & Underwriting Criteria

All projects must meet the following threshold criteria by receiving a minimal score to be considered for funding

- Developer Experience and Qualifications
- Project Budget (budget is reasonable)
- Sources & Uses of Funds (funding is secured)
- Operating Pro Forma (operating costs are covered)
- Financial Underwriting Criteria (e.g., debt coverage ratio)
- Leverage (percent of GO Bond funds relative to total project costs)
- Affordable Units (points awarded for target populations)
- Geographic Dispersion (points awarded for projects where traditionally, affordable housing has not been developed)
- Long-Term Affordability (rental affordability periods of at least 40 years, homeownership affordability periods of 99 years)
- Project Readiness & Development Schedule
- Property Management (if applicable)

In addition to the minimum threshold criteria, the following criteria are also evaluated and scored

- Neighborhood Support
- MBE/WBE Project Participation
- Supportive Services (if applicable)
- Partnership with Non-Profit Entities

If a project receives the minimal threshold score, staff will further evaluate the project application and review the following

- Market Risk Analysis
 - Market Trends
 - Neighborhood Market
 - Community Conditions
 - Target Population
 - Affordability
 - Reflects Needs of Target Population
 - Competition
- Applicant (Borrower) Risk Analysis
 - Compatibility of skills with project
 - Capacity for successful completion
 - Borrower liquidity

- Borrower equity
- Financial ability to absorb cost overruns, delays, etc
- If rental, capacity for on-going management
- If homeownership, marketing and gap financing needs/availability
- Project Risk Analysis
 - Development Budget Reasonable/Feasible
 - Readiness to Proceed
 - Completion Risk
 - Viability Risk
- Investment Analysis
 - Gap Financing Analysis
 - Fund Source Layering Review
 - Investment/Loan Terms

***Please note The above summary of project evaluation and underwriting criteria is not all inclusive of the due diligence performed For example surveys, title policies, environmental conditions etc are also reviewed*

In addition to the threshold requirements, the following per unit, funding amount guidelines will apply to all project applications

Rehabilitation Assistance

| | |
|----------|---------------------|
| \$20,000 | per efficiency unit |
| \$25,000 | per 1 bedroom unit |
| \$30,000 | per 2 bedroom unit |
| \$35,000 | per 3 bedroom units |

New Construction for a Non-CHDO

Maximum limits of \$40,000 per unit in multi-unit structures and/or \$60,000 per unit in single family structures, for a maximum investment of not more than \$500,000

New Construction for a CHDO

Maximum limits of \$60,000 per unit in multi-unit structures and/or \$80,000 per unit in single family structures, for a maximum investment of not more than \$1,000,000